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1 which, again, is what he had the primary
 2 responsibility, was that there was some consideration
 3 being given to moving reserves from the Graduate
 4 hospitals to the Delaware Valley hospitals to cover
 5 the bad debt shortfall.

6 And Mark asking how much Dan thought was
 7 going to be involved in those transfers.

8 And Dan saying that he thought it was
 9 somewhere in the neighborhood of at least \$50 million.

10 And Mark didn't seem shocked or surprised
 11 by the idea or the amount, and said that he would
 12 discuss it with Bill Buettner, and they would get back
 13 to Dan.

14 Q "They" meaning he and Bill?

15 A He and/or he or. That somebody would get
 16 back to Dan.

17 Q Either Mr. Kirstein or Bill Buettner?

18 A Right, correct.

19 Q Do you recall anything you had to say about
 20 the topic?

21 A No, because, again, it wasn't -- it was
 22 eastern driven.

23 Q Do you recall anything more about the topic
 24 being said at the time?

25 A No, other than when Dan and I got out of

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1 there, I was like, "I'd be surprised if they let
 2 you" -- "if they approve moving that."
 3 Q And then you, in your comment, to Dan --
 4 you told Dan that after the lunch?

5 A Yep.

6 Q Yep?

7 A Yes.

8 Q And you mean -- the "they" in that sentence
 9 was Coopers & Lybrand?

10 A That I was surprised that they would --

11 Q That they would have approved?

12 A -- concur with the transfer of those

13 reserves, yes.

14 Q What I'm saying is, when you say "they,"
 15 you mean Coopers & Lybrand?

16 A That's correct.

17 And then I did not hear -- hear about the
 18 issue again until roughly -- and it's one of the memos
 19 that you pulled out from Russ Laing, and the statement
 20 in here, it's the Russ Laing memorandum of June 10th,
 21 from Dan to Russ, Dan Cancelmi to Russ Laing.

22 It says, "A creative was recently developed
 23 to record \$50 million in reserves on various Graduate
 24 entities which were subsequently transferred to the
 25 Delaware Valley hospitals during March and April of

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1 '97 to help reduce the bad debt reserve shortfall that
 2 had increased to 62.3 million as March 31, 1997.
 3 Coopers & Lybrand has accepted this proposal to
 4 transfer the 50 million of reserves from Graduate."

5 Q What exhibit are you reading from?

6 A 1531.

7 Q Did you get a copy of that?

8 A This memo?

9 Q Yes.

10 A Yes.

11 Q At or about the time it's dated?

12 A Yes.

13 Because if you remember, we talked. At the
 14 top is a handwritten note from David McConnell --

15 Q Right.

16 A -- to me on June 16th.

17 Q So was that the first time -- I think what
 18 you're telling us is, that is the first time you
 19 learned that -- the fact you were surprised -- I'm
 20 sorry.

21 That is the first time you learned that
 22 Coopers & Lybrand had approved of the transfer?

23 A Yes.

24 Although I had surmised that because the
 25 entries were made.

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1 Now, when it said in the March 18 close --
 2 if you remember, a month end is always closed
 3 afterwards.

4 So those entries would not have been made
 5 until sometime after March or April.

6 So that brings them potentially into the
 7 May -- May arena, and this memo is dated early June,
 8 that I assume, based on the fact that those entries
 9 were made, that Coopers had -- had given the okay, or
 10 that they were okay with that transfer.

11 Q So to put it differently, you were betting
 12 what was wrong on whether Coopers would approve?

13 MR. RYAN: Objection.

14 A Correct.

15 Q I'm going to ask you to flip back to
 16 another, Exhibit 1063, which are the compilation of
 17 notes from -- we believe from Mr. Cepielik's files, at
 18 least by Coopers & Lybrand in this case.

19 I'm sorry. I'm going to refer you again,
 20 Mr. Adamczak, to Bates range -- or, Bates page 147599,
 21 and to a paragraph later in the page than the one we
 22 you referred to earlier, where it says, "recalls a
 23 \$50 million" -- "recalls," I think the translation is,
 24 "50 million of reserves was originally introduced by
 25 Dan Cancelmi to Mark Kirstein, who indicated he

1 thought it was okay, but wanted to run it up a
2 flagpole."

3 Do you see that?

4 A Yes.

5 Q And is -- does this note refer to you
6 telling Mr. Cepielik, or somebody at
7 PricewaterhouseCoopers, about the Tambellini's
8 conversation we just discussed?

9 A It does.

10 Although, the only thing I would clarify
11 is, when I say was originally introduced by Dan, as I
12 mentioned in the conversation, Dan mentioned it to
13 Mark.

14 I don't know whether that was Dan
15 originally introducing it, meaning there may have been
16 discussions by McConnell, Spargo, or whoever, relative
17 to this concept.

18 So I don't want to -- I don't want it to be
19 construed as Dan was coming up with this idea at this
20 time and proposing it to Mark.

21 It may have been introduced or discussed by
22 others before this meeting, but it was introduced or
23 related to Mark at that meeting.

24 Q And introduced to you at that meeting?

25 A And to me at that meeting, right.

1 I mean, for all I know or don't know,
2 Bill Buettner may have already known about it when
3 Mark went back to him, because he may have discussed
4 it with McConnell.

5 I don't know that.

6 Q So what you're -- I think what you're
7 trying to clear up is that you don't want the
8 impression left that you know Mr. Cancelmi was the
9 father of the idea?

10 A Right, and at that moment.

11 Q Right.

12 It may have been others, and it may have
13 been before, as far as you know?

14 A Right.

15 And I would bet that's the case.

16 I doubt that he would have just come to
17 that conclusion, or thought -- thought that idea up
18 and presented it to Mark at that lunch.

19 I would bet there were some prior
20 discussions.

21 Q Was the conversation in the car ride, or
22 was it at the lunch?

23 A It was at the lunch.

24 Q And as you left the lunch, that is, and
25 parted company with Mr. Kirstein, after you parted

1 company with Mr. Kirstein, is it then that you
2 expressed the sentiment that you would be surprised if
3 Coopers & Lybrand would approve --

4 A Yes.

5 Q -- to Mr. Cancelmi?

6 A Uh-huh.

7 Q Is that 'yes'?

8 A Yes.

9 Q And what was his reaction to your
10 expression of surprise?

11 A I think he had a similar -- a similar
12 thought.

13 Q And I take it, then, from the testimony you
14 just gave us a few minutes ago, that he has never told
15 you, that is, that Mr. Cancelmi has never told you
16 that this idea of the 50 million -- initial
17 \$50 million reserve transfer was his?

18 A That is correct.

19 Q The original idea?

20 A Right, and I do not know where it came
21 from.

22 Q Have you ever heard anybody else ascribe it
23 to anyone?

24 A No.

25 Q I'm going to refer you just quickly to a

1 paragraph immediately before in the notes of
2 10/14/98.

3 It says, I believe, "indicated '96
4 shortfall was thought to be 30," with a dollar sign, I
5 believe indicating 30 million, "in '96. It was not
6 until '97 that he heard of shortfall of \$50 million,
7 70 million & 99 million."

8 Is that the way you read those notes?

9 A Yes.

10 Q And is that also accurate about your
11 conversation with this PricewaterhouseCoopers person
12 in 1998?

13 A Yes.

14 Q An accurate reflection of it?

15 A Yes.

16 Q And it's accurate and consistent with your
17 recollection today?

18 A Yes.

19 Q Do you remember anything else about the
20 \$50 million sum, or the transfer of reserves that was
21 discussed at the Tambellini's meeting with
22 Mr. Kirstein, or by you and Mr. Cancelmi on that same
23 day?

24 A No.

25 Q Do you remember any other topic of

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1 conversation during that lunch, or the ride to and
 2 from it, as you sit here today?
 3 A Just that I thought -- I and Dan both
 4 thought they needed to look at receivables and take a
 5 good, hard look at it, which we had told him on
 6 several occasions.
 7 Q That was you telling Mr. Kirstein that?
 8 A Yes.
 9 Q Both of you?
 10 A Uh-huh.
 11 Q Both Dan and you?
 12 A Correct.
 13 Q And what was his reaction to that, if any?
 14 A That they already had that on their radar
 15 screen to look at.
 16 Q When you heard the comment at Tambellini's,
 17 did you have a -- in your head, an idea about whether
 18 the reserves had already been booked at the Graduate,
 19 or whether they were going to be created for the
 20 purpose of transfer?
 21 A I don't know that I had any indication
 22 one way or the other based on that conversation.
 23 Q Did you have any indication one way or the
 24 other based on anything else at the time?
 25 A No.

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1 Q Did you ever discuss this reserve transfer,
 2 the 50 million discussed at Tambellini's, with anyone
 3 from Coopers & Lybrand yourself?
 4 A I did not.
 5 Q Did you ever discuss any other reserve
 6 transfer from Graduate hospitals' accounts to the
 7 Delaware Valley Obligated Group accounts with anyone
 8 at Coopers at any other time?
 9 A No.
 10 The only other time that I remember
 11 being discussed, it was at one of the few weekly audit
 12 update meetings that I went to.
 13 Q In what fiscal year?
 14 A It would have been the '97 fiscal year
 15 audit, so it would have been after June 30, 1997,
 16 where Bill Buettner made the comment that that's the
 17 beauty of an acquisition, that it gives you the
 18 opportunity to, in essence, take care of an issue like
 19 bad debts over several years by capitalizing it as
 20 goodwill.
 21 Q And this was made in your presence, this
 22 comment?
 23 A That's correct.
 24 Q Who else was present at this update
 25 meeting?

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1 A I believe Dan Cancelmi was there, and there
 2 would have been most likely somebody else from
 3 Coopers & Lybrand, Mark Kirstein or Amy Frazier, or
 4 both.
 5 Q Anybody else from the AHERFs side?
 6 A It could have been Chuck Lisman, or any of
 7 the accounting managers may have there.
 8 Nick Vidovich.
 9 Jack Nelson.
 10 I just don't remember.
 11 Q Was the comment made in a discussion of the
 12 \$50 million transfer?
 13 A I don't remember it clear enough to
 14 remember whether numbers were spoken about it, or just
 15 in general.
 16 Q But the idea of the availability of the
 17 Graduate reserves and the transfer of the Graduate
 18 reserves was the context in which the comment was
 19 made?
 20 MR. RYAN: Objection.
 21 A I believe so.
 22 Q And the transfer of those reserves to DVOG?
 23 A That was my understanding.
 24 Q That's what you took away from the comment?
 25 A That's correct.

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1 Q Did anybody else have a comment in response
 2 to that?
 3 A No.
 4 Q Do you recall any other discussion of the
 5 topic of the Graduate reserve transfer to DVOG in that
 6 audit meeting?
 7 A No.
 8 Q And I think, from your testimony, then, you
 9 don't recall any other conversations with anyone at
 10 Coopers about the transfer after that?
 11 A That's correct.
 12 Q To the time of this deposition today?
 13 A Correct.
 14 Q Save and except --
 15 A Well, it may have been when we talked to
 16 the guy who took the notes here from PWC.
 17 Q Mr. Cepielik, I apologize.
 18 A Right.
 19 Q Other than that?
 20 A There may have been some well after that
 21 fact with Buettner, I don't remember, like late '98 or
 22 '99.
 23 Q Do you remember the content of any such
 24 communications?
 25 A No, no.

1 Q Do you recall -- strike that.
 2 Do you recall whether the flagpole language
 3 was yours in your talk with the fellow from
 4 PricewaterhouseCoopers in October '98?
 5 A I don't remember.
 6 Q Is that a phrase you used?
 7 A Periodically.
 8 Q But if you had used it, it would have
 9 referred to what or whom?
 10 A In discussion with Bill Buechner.
 11 Q We've already shown you today,
 12 Mr. Adamczak, Exhibit 1 -- No. 154, and I'm going to
 13 ask you to turn back to it for a minute.
 14 A 154?
 15 Q Yes.
 16 It's a May 22nd, 1997 memo to -- from
 17 Mr. Cancelmi to distribution. It had the restrict --
 18 "Graduate System Restructure Reserves" as its final
 19 page.
 20 A Okay.
 21 Q I'm going to ask you to skip to the
 22 second page of the document, Mr. Adamczak.
 23 At the top, it refers to the recording of
 24 certain reserves at the Graduate hospitals as part of
 25 purchase price allocation, and then underlines a

1 phrase which reads, "which are not reflected on the
 2 income statement."
 3 Do you see that?
 4 A I do.
 5 Q And then it says, "Rather," comma, "these
 6 reserves have been capitalized on the balance sheet as
 7 an intangible asset which will be amortized over
 8 35 years."
 9 Do you see that?
 10 A I do.
 11 Q "This accounting treatment," it continues,
 12 "has been discussed with Coopers & Lybrand who agrees
 13 with this approach as these reserves are viewed as
 14 unrecorded preacquisition contingencies."
 15 Did I read that right, as well?
 16 A You did.
 17 Q And you are noted at the distribution line
 18 at the bottom of the page?
 19 A I am.
 20 Q I think, then, the table that follows the
 21 text I just read has a row that lists "Delaware Valley
 22 hospital bad debt reserves," and amounts of the
 23 50 million -- that total 50 million that would be
 24 accrued there.
 25 Do you see that?

1 And at that point, I took it to
 2 David McConnell and said, "There's still a shortage of
 3 \$20 million."

4 And his comment was that, "We had discussed
 5 deaning this up once and for all with" -- not "we,"
 6 that he had discussed with Coopers once and for all
 7 cleaning this up.

8 They were aware of it, they had approved
 9 the \$50 million being moved, and that they would be
 10 fine with moving additional reserves to get the bad
 11 debt reserves where it needed to be.

12 In other words, "There's an issue, we're
 13 going to dean it up, and we're going to do what needs
 14 to be done to get it dean up by the end of this
 15 year."

16 Q And the "this year" in that sentence was
 17 fiscal year '97?

18 A Correct.

19 Q Did that -- do you recall approximately at
 20 what point in time you had that conversation with
 21 Mr. McConnell?

22 A I don't remember specifically, but I know
 23 it was after Steve left. So it would have been after
 24 May 30th.

25 Q Was it after year end?

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1 A I think it was when we were doing the May
 2 financial statements, because then again when June
 3 rolled around, we were another 20 short that no one
 4 suspected, because it -- because the direction had
 5 been given to the patient accounting people to clean
 6 up their patient records.

7 So no one really knew what the magnitude of
 8 the final write off was going to be.

9 They thought it was 50. Then in May, it
 10 ended up 20 short. So they thought it was 70, and
 11 more clean up occurred.

12 As you remember, I told you the patient
 13 accounting records, there's a great volume.

14 So until they're cleaned up, no one knew
 15 what the final outcome was going to be, and they
 16 couldn't clean it up immediately. It took time.

17 So as of May, it was 21 additionally short,
 18 and then in June, it became another 20 some million
 19 additionally short, and that's when I went back to
 20 David McConnell again, and he said, 'Talk to Dan and
 21 see whether there are any more reserves on the
 22 Graduate hospitals or elsewhere to cover that 28,
 23 because we are to clean it up by the end of the year.'

24 Dan identified additional reserves for that
 25 20 plus million and the reserves.

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1 David approved it, and the write off
 2 occurred.

3 Q And that last slug was the 28 million that
 4 is referred to in the August 21, 1998 memo?

5 A Yes.

6 It comes to 99 point --

7 Q The last piece --

8 A -- 565 million.

9 Q The last piece of the 99 million total?

10 A That's correct.

11 Q So you had two subsequent conversations
 12 with Mr. McConnell?

13 A That's correct.

14 Q And in the second one, was
 15 Coopers & Lybrand's review or approval of the ongoing
 16 transfer subject brought up again?

17 MR. RYAN: Objection.

18 A Yes.

19 Although, he -- I don't know that he went
 20 to them specifically and said, 'I'm going to write 21,
 21 I'm going to write 28.'

22 It was more like, "This issue was discussed
 23 with Coopers. They know we're cleaning it up. They
 24 know we're moving reserves to clean it up. They'll be
 25 okay with it."

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1 Q And your direction from him was to take
 2 it -- get rid of it this year?
 3 A Correct.
 4 Q Mr. Adamczak, we are handing you now what
 5 has been marked as Exhibit 8 early on in the
 6 deposition proceedings in this case apparently, which
 7 is a memo dated April 14, 1997, apparently shortly
 8 after your Tambellini's lunch, to Mr. Spargo from
 9 Mr. Cancelmi, with a heading 'Restructuring Charges
 10 Earmarked for Bad Debt Reserves.'

11 Have I described the memo accurately?

12 MR. RYAN: Objection.

13 A You have.

14 MR. JONES: What's the basis for that
 15 objection?

16 MR. RYAN: That there's any connection
 17 between this memo and the Tambellini's lunch.
 18 It's the inference that you were packing into
 19 that.

20 MR. JONES: I think -- I was only
 21 indicating a time relationship.

22 BY MR. JONES:

23 Q But in any event, you are copied on the
 24 memo; is that right, sir?

25 A That's true.

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1 Q In the first sentence, it says, "In an
 2 effort to alleviate the Delaware Valley patient
 3 accounts receivable estimated bad debt reserve
 4 shortfall, a decision has recently been made to record
 5 approximately 50 million of restructuring reserves on
 6 the various Graduate Hospitals."

7 Did I read the first sentence right?

8 A I believe so.

9 Q And so if -- if this memo was received by
 10 you on or after April 14, 1997, you were aware that
 11 the transfer was to go through, whether or not having
 12 been approved by Coopers, at least by April 14, 1997;
 13 is that right?

14 A Correct.

15 Q Does this refresh your recollection, this
 16 first sentence, that the reserves were actually
 17 recorded in the first instance for the purposes of
 18 alleviating the bad debt reserve shortfall at DVOG?

19 A It appears that's why they were recorded,
 20 yes.

21 I think the -- the one memo we looked at,
 22 No. 154, dated May 22nd, identifies on the second page
 23 accruals for the existing AHERF Delaware Valley
 24 hospital bad debt reserves of 50 million.

25 Q Does the language also indicate to you, and

1 did you so read it at the time, that the reserves were
 2 not yet booked at Graduate, if you go back to the
 3 first sentence of the April 14 memo?

4 A It appears that to be the case, that they
 5 were not reserved -- were not recorded, or are being
 6 recorded as a part of this initiative.

7 Q Either they were not yet recorded, or were
 8 recorded contemporaneous with the memo?

9 A Correct.

10 Q The second sentence of the memo says, "In
 11 turn," comma, "these reserves will be transferred over
 12 to AHERF Delaware Valley hospitals via intercompany
 13 account transfers, which will serve to increase the
 14 hospitals' bad debt reserve balances."

15 Is that right?

16 A That's correct.

17 Q And that was consistent with what you
 18 understood was the proposal raised at the Tambellini's
 19 lunch in your presence?

20 A The only -- yes, but only thing that I was
 21 not sure of at the Tambellini's lunch is whether
 22 reserves would be created and moved, or whether they
 23 would be existing reserves that would be moved.

24 But the concept of moving the reserves from
 25 Graduate to Delaware Valley is consistent.

1 of this memo, Exhibit 8?

2 A I do not.

3 Q If they would have asked you for it, would
 4 you have given it to them?

5 A I assume so, but I don't know for sure.

6 Q Would you have -- pardon my stuttering.

7 Did you ever receive any instruction not to
 8 give this memo to anyone?

9 A I did not.

10 Q Did you ever give such an instruction?

11 A I did not.

12 Q I'm handing you or passing now,
 13 Mr. Adamczak, what we've marked as Exhibit 203, and
 14 it's a memo from you to Nick Vidovich dated April 17,
 15 1997, three days later.

16 Is that right?

17 A That's correct.

18 Q And in it, you write under the subject
 19 line, "Restructuring Reserves," "Fifty million of
 20 reserves will be recorded on the Graduate Hospitals
 21 and subsequently moved to DV hospitals via AHERF as
 22 follows."

23 It, again, speaks of the recording process
 24 to be in the future; is that right?

25 A Correct.

1 Q In here, it's made clear to you that it was
 2 creation, as well?

3 A Yes.

4 Q Who would have actually ultimately recorded
 5 the reserves; do you know?

6 A The accounting staff for the Delaware
 7 Valley.

8 Q And who would have done the entries to
 9 accomplish the transfer?

10 A The accounting staffs for the Delaware
 11 Valley hospitals.

12 Q And you would not have been involved?

13 A In the actual writing of journal entries
 14 and putting them into the system?

15 Q Or approving them.

16 A No.

17 Q You would not have?

18 A I think this memo would have done it.
 19 I may have -- I don't think I did in this
 20 instance, but I may have authored a memo consistent
 21 with this to the accounting staff that said, "Based on
 22 this memo, record these entries."

23 Q You just don't recall doing it?

24 A Not on this issue, no.

25 Q Do you know if Coopers ever received a copy

1 Q And "DV" refers to Delaware Valley?

2 A That's correct.

3 Q And these, in fact, the entries that are
 4 noted below that phrase, are, in fact, the way the
 5 accounting treatment worked with AHERF as the
 6 intermediary in the transaction; is that right?

7 A Yes and no.

8 Q AHERF, the parent company, was not really
 9 the intermediary, other than the fact that all banking
 10 was settled through the parent company.

11 A You only had a payable or receivable to the
 12 parent, not to any other entity.

13 Q You didn't have a direct payable or
 14 receivable to sister enterprises?

15 A Correct.

16 It was either a payable or a receivable
 17 position with the parent company.

18 Q As a result of moving these reserves from
 19 one hospital to another, there had to be a
 20 corresponding entry on this parent relative to that
 21 receivable or payable position.

22 A And this -- these entries accomplished the
 23 task --

24 Q Correct.

25 Q -- for the reserve transfers?

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1 A That's correct.
 2 Q For the first 50 million anyway?
 3 A Yes.
 4 Q 50 million, was that a significant sum in
 5 magnitude?
 6 A I believe so.
 7 Q And was it significant enough that this --
 8 you believe that this kind of transfer would have been
 9 discussed with the auditors?
 10 A I would believe --
 11 MR. RYAN: Objection.
 12 A I would believe it was, and I would also
 13 believe that they would have seen it in their auditing
 14 work, and should have asked about it.
 15 Q Were you generally proactive in your
 16 discussions with Coopers & Lybrand's about
 17 transaction -- Coopers & Lybrand about transactions or
 18 entries of this magnitude?
 19 A I don't know if we were or weren't, to be
 20 honest.
 21 Q I believe you testified and used the word
 22 "proactive" before when it came to recording something
 23 like these kinds of transactions.
 24 Do you have a reason to think otherwise
 25 now?

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1 A No, no.
 2 And based on, you know, my recollection of
 3 Dan bringing it up at the restaurant, and his memos,
 4 where he says Coopers & Lybrand approved it, I have no
 5 reason to believe that it wasn't discussed with them
 6 proactively.
 7 Q And my question is: With items of this
 8 magnitude, 50 million -- in the \$50 million range,
 9 were you proactive in discussing generally these
 10 matters with Coopers & Lybrand to avoid reversals
 11 later?
 12 A Generally, yes.
 13 MR. JONES: Let's take a quick break here.
 14 THE VIDEOGRAPHER: We're off the record.
 15 The time is 4:47 p.m.
 16 (Recess taken.)
 17 THE VIDEOGRAPHER: Standby, please.
 18 We're back on the record. The time is
 19 4:49 p.m.
 20 BY MR. JONES:
 21 Q I'm going to ask you to flip back to
 22 Exhibit 154.
 23 It looks like, based on the language we
 24 read on the second page of this exhibit together,
 25 Mr. Adamczak, that at some point a decision was made

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1 to create the \$50 million worth of reserves through
 2 purchase accounting and not the restructuring costs.
 3 Is that consistent with your recollection?
 4 A Yes.
 5 Q And do you know why that decision was made?
 6 A To record it as a purchase price versus an
 7 income item?
 8 Q A restructuring income item.
 9 A No.
 10 Q Do you know who was involved?
 11 A No.
 12 Although, it says that it was discussed
 13 with Coopers & Lybrand.
 14 I was told at one point that they had
 15 suggested it.
 16 Q Did Mr. Cancelmi and you ever discuss this?
 17 A Dan had mentioned to me that
 18 Coopers & Lybrand -- that this is the issue where I
 19 think I had mentioned that I thought originally this
 20 might have been booked as an expense, and then moved
 21 to the balance sheet as goodwill.
 22 Q I understand.
 23 A Or part of that issue, that certain items
 24 were originally shown as restructuring and later
 25 reclassified to goodwill.

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1 Q So when you say that -- was it Dan that
 2 told you that Coopers was involved in changing the
 3 initial treatment from restructuring cost charges to
 4 the income statement, to a balance sheet item in
 5 purchase price accounting?
 6 A Yes, that they were involved in that
 7 suggestion or decision.
 8 Q Okay.
 9 And do you recall roughly when he told you
 10 that?
 11 A No.
 12 Q Do you recall the context of the meeting,
 13 or the conversation?
 14 A Yeah.
 15 I had asked him -- again, I had seen
 16 financial statements for one month that had
 17 restructuring expenses of a certain number, and then I
 18 got the next month Delaware Valley statements, and
 19 their restructuring number was much smaller on the
 20 balance sheet increase.
 21 So there was an adjustment to the prior
 22 period, and I had asked Dan why that occurred.
 23 And he told me that there was a discussion
 24 with Coopers, and they suggested that certain of those
 25 expenses should be shown as goodwill instead of as a

1 restructuring cost, and they made the adjustment
 2 retroactive.
 3 Q When Mr. Buettner made the comment in the
 4 meeting you referred to earlier about the beauty of
 5 purchase accounting, was there any reaction from
 6 anybody, or any other discussion of the topic?
 7 A I don't think so.
 8 Q Was a time frame put -- and forgive me if
 9 you already testified to this -- to the amount of time
 10 over which the items could be written off?
 11 A Well, it said in that memo that they would
 12 be written off over 35 years, but I thought that that
 13 was adjusted afterward downward to 15 to 20 years.
 14 Q And did Mr. Buettner say that in the
 15 meeting you referred to earlier, or did you learn that
 16 or recall that from some other set of events?
 17 A That the --
 18 Q That the time period would be 15 years.
 19 A I don't remember.
 20 Q Do you remember him putting a time period
 21 to it in his comments about the beauty of purchase
 22 accounting, purchase price accounting?
 23 A Yeah, but I don't remember whether he said
 24 over 15 or 30, or just over future years.
 25 Q In the -- in Exhibit 8, just a few back,

1 or just on top of the pile, on the first page,
 2 Mr. Cancelmi about halfway through the second
 3 paragraph states, "Granted, the reallocation of the
 4 reserves" -- "of these reserves from the Graduate
 5 hospitals to other Delaware Valley hospitals is not
 6 the most technically appropriate resting place."

7 Do you see that --
 8 A I do.
 9 Q -- sentence?
 10 Did you agree with Mr. Cancelmi in this
 11 statement?
 12 A Yes.
 13 Q And what -- what do you understand him to
 14 be saying there?
 15 A Again, that they're created on
 16 one hospital, or one obligated group, and moved to
 17 another obligated group, that you've crossed
 18 boundaries between legal entities.
 19 Q Had you ever seen that type of transfer
 20 before in your work at AHERF?
 21 A Between obligated groups, I don't remember
 22 ever seeing it.
 23 I don't know whether they -- in Pittsburgh,
 24 I don't remember it moving from one hospital to
 25 another.

1 I can't say whether they did it in the
 2 Delaware Valley or not.
 3 Q And do you believe such transfers to be
 4 compliant with GAP?
 5 A No.
 6 MR. JONES: That's, I think, where we'll
 7 stop for the day.
 8 THE VIDEOGRAPHER: This concludes tape four
 9 of the deposition of Mr. Albert Adamczak. We're
 10 off the record. The time is 4:55 p.m.
 11 - - -
 12 (Thereupon, at 4:55 p.m., the deposition
 13 was continued, to resume on Friday, June 20,
 14 2003 at 8:30 a.m.)
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1 CERTIFICATE
 2 COMMONWEALTH OF PENNSYLVANIA,) ss:
 3 COUNTY OF ALLEGHENY.)
 4 I, Teresa Constantini, do hereby certify that
 5 before me, a Notary Public in and for the Commonwealth
 6 aforesaid, personally appeared ALBERT ADAMCZAK, who
 7 then was by me first duly cautioned and sworn to
 8 testify the truth, the whole truth, and nothing but
 9 the truth in the taking of his oral deposition in the
 10 cause aforesaid; that the testimony then given by him
 11 as above set forth was by me reduced to stenotypy in
 12 the presence of said witness, and afterwards
 13 transcribed by means of computer-aided transcription.
 14 I do further certify that this deposition was
 15 taken at the time and place in the foregoing caption
 16 specified.

17 I do further certify that I am not a relative,
 18 counsel or attorney of either party, or otherwise
 19 interested in the event of this action.

20 IN WITNESS WHEREOF, I have hereunto set my hand
 21 and affixed my seal of office at Pittsburgh,
 22 Pennsylvania, on this _____ day of _____,
 23 2003.

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1 restructuring cost, and they made the adjustment
 2 retroactive.
 3 Q When Mr. Buettnner made the comment in the
 4 meeting you referred to earlier about the beauty of
 5 purchase accounting, was there any reaction from
 6 anybody, or any other discussion of the topic?

7 A I don't think so.

8 Q Was a time frame put -- and forgive me if
 9 you already testified to this -- to the amount of time
 10 over which the items could be written off?

11 A Well, it said in that memo that they would
 12 be written off over 35 years, but I thought that that
 13 was adjusted afterward downward to 15 to 20 years.

14 Q And did Mr. Buettnner say that in the
 15 meeting you referred to earlier, or did you learn that
 16 or recall that from some other set of events?

17 A That the --

18 Q That the time period would be 15 years.

19 A I don't remember.

20 Q Do you remember him putting a time period
 21 to it in his comments about the beauty of purchase
 22 accounting, purchase price accounting?

23 A Yeah, but I don't remember whether he said
 24 over 15 or 30, or just over future years.

25 Q In the -- in Exhibit 8, just a few back,

1 I can't say whether they did it in the

2 Delaware Valley or not.

3 Q And do you believe such transfers to be
 4 compliant with GAP?

5 A No.

6 MR. JONES: That's, I think, where we'll
 7 stop for the day.

8 THE VIDEOGRAPHER: This concludes tape four
 9 of the deposition of Mr. Albert Adamczak. We're
 10 off the record. The time is 4:55 p.m.

11 - - -

12 (Thereupon, at 4:55 p.m., the deposition
 13 was continued, to resume on Friday, June 20,
 14 2003 at 8:30 a.m.)

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1 CERTIFICATE

2 COMMONWEALTH OF PENNSYLVANIA,)
 3) ss:
 4 COUNTY OF ALLEGHENY.)

5 I, Teresa Constantini, do hereby certify that
 6 before me, a Notary Public in and for the Commonwealth
 7 aforesaid, personally appeared ALBERT ADAMCZAK, who
 8 then was by me first duly cautioned and sworn to
 9 testify the truth, the whole truth, and nothing but
 10 the truth in the taking of his oral deposition in the
 11 cause aforesaid; that the testimony then given by him
 12 as above set forth was by me reduced to stenotype in
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15 I do further certify that this deposition was
 16 taken at the time and place in the foregoing caption
 17 specified.

18 I do further certify that I am not a relative,
 19 counsel or attorney of either party, or otherwise
 20 interested in the event of this action.

21 IN WITNESS WHEREOF, I have hereunto set my hand
 22 and affixed my seal of office at Pittsburgh,
 23 Pennsylvania, on this _____ day of _____,
 24 2003.

25

26 Teresa Constantini, Notary Public
 27 In and for the Commonwealth of Pennsylvania
 28 My commission expires October 9, 2004

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1 UNITED STATES DISTRICT COURT

2 FOR THE WESTERN DISTRICT OF PENNSYLVANIA

3 - - -

4 THE OFFICIAL COMMITTEE OF THE)
5 UNSECURED CREDITORS OF ALLEGHENY)
6 HEALTH, EDUCATION AND RESEARCH)
7 FOUNDATION,)
8 Plaintiff,)
9 vs.) Civil Action
10 PRICEWATERHOUSECOOPERS, LLP,) No. 00-684
11 Defendant.)
12 - - -

13 Continued Videotaped Deposition of ALBERT ADAMCZAK

14 Friday, June 20, 2003

15 Volume II

16 - - -

17 The continued videotaped deposition of
18 ALBERT ADAMCZAK, recalled as a witness by the
19 Plaintiff, pursuant to notice and the Federal Rules
20 of Civil Procedure pertaining to the taking of
depositions, taken before me, the undersigned,
Teresa Constantini, a Notary Public in and for the
Commonwealth of Pennsylvania, at the law offices of
Jones, Day, Reavis & Pogue, One Mellon Bank Center,
500 Grant Street, 31st Floor, Pittsburgh, Pennsylvania
15219, commencing at 8:26 a.m. the day and date above
set forth.

21 - - -

22 COMPUTER-AIDED TRANSCRIPTION BY
23 MORSE, GANTVERG & HODGE, INC.
24 PITTSBURGH, PENNSYLVANIA
412-281-0189

25 - - -

PAGE 10

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1 documented so titled.
 2 Do you recognize this document?
 3 A I do.
 4 Q And it is one of the update agendas?
 5 A Yes.
 6 Although, based on the date, it looks like
 7 it was probably a preaudit meeting, meaning that this
 8 meeting looks like it took place before the year end.
 9 Q Before June 30?
 10 A Yes, before the year-end audits started.
 11 Q And, in fact, it follows the April 14, 1997
 12 memo marked as Exhibit 8 by a couple months?
 13 A Correct.
 14 Q And it looks as if there are still ongoing
 15 discussions about the appropriate entry date for the
 16 Graduate hospitals as late as June 20?
 17 A I agree.
 18 I see that halfway down where it says
 19 closing date March May -- versus May.
 20 Q It says "March 1 versus May 1"; correct?
 21 A Correct.
 22 Q And do you remember any discussions at this
 23 update meeting --
 24 A If I remember --
 25 Q -- on this topic?

PAGE 10

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1 about the selection of the appropriate date?
 2 A I don't remember whether they did at the
 3 meeting or not.
 4 Q Do you remember who was in attendance at
 5 this meeting?
 6 A I believe Bill Buettner, and either
 7 Mark Kirstein or Amy Frazier, myself,
 8 David McConnell. Although I can't remember whether he
 9 was or not, I would assume Dan Cancelmi probably was
 10 here.
 11 Q Your -- are the handwritten notes on the
 12 document yours?
 13 A They were.
 14 Q Can you read the ones up in the upper
 15 left-hand corner for me?
 16 A Something relative a special purpose
 17 opinion for some kind of a debt letter that we would
 18 have needed.
 19 Q And in the upper right-hand corner, does it
 20 say "Set up meeting"?
 21 A Set up meeting relative to Penn Medical and
 22 Pyramid, which was an HMO arrangement, I believe.
 23 Q I think we mentioned them yesterday.
 24 A Yeah.
 25 I think we had asked Coopers -- I don't

PAGE 11

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1 A If I remember correctly, this agenda was
 2 part of -- if you remember, we talked previously about
 3 a -- generally having a planning meeting with
 4 Coopers & Lybrand before they came and did their
 5 interim work, or so forth, or before the audit anyhow,
 6 it might have been even after they did their audit
 7 work.
 8 I think this was put together for a meeting
 9 to discuss some outstanding issues before the audit.
 10 Q Do you recall at the meeting any discussion
 11 of this Graduate closing date, or entry date with the
 12 auditors?
 13 A I know that they were made aware of the
 14 issue, and I think there was to be further follow-up
 15 discussion after they were to do some research and
 16 come back with some recommendations.
 17 So I don't think there was an elaborate
 18 discussion relative to this issue at the meeting.
 19 I think it was introduced as an issue, that
 20 there was some follow-up conversation relative to it
 21 at a later date.
 22 Q Who introduced it?
 23 A I can't say for sure, but I believe
 24 David McConnell was at this meeting.
 25 Q Did anyone from Coopers express a concern

PAGE 11

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1 know whether they were to engage -- whether it was
 2 one of their actuaries, or somebody, to review -- with
 3 an HMO, you generally review actuarial experience to
 4 determine what liabilities may be out there that you
 5 don't know about.
 6 And they were to be involved in the process
 7 of that actuarial review, to determine what
 8 liabilities needed to be recorded for the Pyramid
 9 contract at year end.
 10 Q Could you read for me the notes that are
 11 closest now to the "Graduate closing Date" entry on
 12 the agenda?
 13 A "Forbes opening balance sheet," and "Final
 14 resolutions."
 15 Q And what does the "Final resolutions" refer
 16 to? If you recall.
 17 A I would assume that had something to do
 18 with the purchase agreements, and so forth.
 19 I think there was something in the
 20 resolutions that required the Graduate hospitals to
 21 come into the AHERF system by a certain date.
 22 Q And at the base of the page, you've got a
 23 note, a footnote, apparently next to the -- the
 24 subheading under "Commitments" that has the word
 25 "Others."

1 And could you read the footnote for me?
 2 A "DV," which is Delaware Valley, "provisions
 3 that make cause capital treatment 90 percent of fair
 4 market value."

5 So there must have been some kind of a
 6 leasing agreement, that we were trying to determine
 7 whether it should be treated as an operating lease or
 8 a capital lease.

9 Q On the second page, I think you'll see
 10 additional handwritten notes.

11 Does the first one say "Audit Timing"?

12 A Correct.

13 Q "August 4 and August 31"?

14 A No.

15 What it seems to say to me is, I believe,
 16 that August 4th ending August 31st.

17 Q Do you have any recollection of what those
 18 notes mean?

19 A That probably is when they were going to do
 20 a bulk of their year-end work.

21 Q Oh, I see.

22 And then the last entry in your handwriting
 23 is "Policy Manual 2 year"?

24 A Yeah.

25 Q And what does that refer to? If you

1 recall.

2 A The thought was that we needed to develop a
 3 policy manual related to something, I don't remember
 4 what, and we thought the process might take about
 5 two years to -- from the start to completion of a
 6 thorough policy manual.

7 Q I'm going to ask you to look back at
 8 Exhibit 8 again.

9 If you look again at page 2 of the document
 10 on the second page, the sentences we looked at moments
 11 ago indicate that the 50 million initial reserve
 12 transfers from the Graduate -- accounts at the
 13 Graduate hospitals to accounts at the Delaware Valley
 14 hospitals was to occur in two increments.

15 Is that fair to say?

16 A That's fair.

17 Q Do you know who made that decision?

18 A I don't.

19 Q Do you recall discussions or ever learning
 20 the reason that the -- about or ever learning the
 21 reason underlying the two increment approach?

22 A I did hear that it may have -- it may have
 23 something to do with the smoothing out of that
 24 transfer over two periods instead of doing it all in
 25 one.

1 Q And what does that mean?

2 A To make the impact appear to be less. In
 3 other words, less noticeable than if you did it all at
 4 one time.

5 Q And who did you hear that from?

6 A Steve Spargo.

7 Q And less noticeable on the actual internal
 8 end audit of the financial statements?

9 A No. It would only be on the internal,
 10 because audited statements are only done at June.

11 Q Okay.

12 So it was -- Mr. Spargo shared with you
 13 that part of the reason -- that the reason, or at
 14 least part of the reason, for the two increment
 15 approach was to make it less obvious because it
 16 appears in two sets of internal financial statements?

17 A Correct.

18 Q And less obvious to whom, did you
 19 understand him to mean?

20 A I don't know that he stated who, but I
 21 would assume it's whoever read it.

22 Q Okay.

23 And the readers of internal financial
 24 statements at AHERF included whom generally?

25 A Generally the operating CEOs.

1 Q Did he express to you any -- did the board
 2 members get internal financial statements?

3 A I don't know if they routinely did, meaning
 4 I don't know if they got monthly.

5 I know there were periodic board meetings
 6 that financial statements went to.

7 I don't know whether March and April
 8 statements would have gone to a board.

9 In other words, whether there was a board
 10 meeting scheduled to review those statements.

11 Q But in any event, board members at board
 12 meetings, as understood it in this time period, got
 13 more than the audited financial statements?

14 A Oh, correct. Yeah.

15 They would get an interim -- generally
 16 whenever the meeting was, they got the most recent
 17 available interim statements.

18 Q Do you think, from your conversation with
 19 Mr. Spargo or otherwise, that the decision to make the
 20 moves in two \$25 million amounts in two different
 21 periods was made by Mr. Spargo or others?

22 A I would believe it was made by others, but
 23 I don't know that for sure.

24 Q Why is it that you believe that?

25 A I would believe that David McConnell was at

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1 least aware of that decision, because anything of this
2 magnitude he would be aware of.

3 Q Did you learn that Coopers was involved in
4 the decision, or had input into it?

5 A I did not.

6 Q Did you ever discuss the decision with
7 anyone at Coopers, or have it discussed in your
8 presence?

9 A No.

10 Q I think you testified before that you were
11 never made aware of an adjustment that Coopers
12 requested or demanded on AHERF's financial statements
13 that was not made.

14 Is that a fair recollection of your
15 testimony from yesterday?

16 MR. RYAN: Objection.

17 A You need to give me some more history as
18 to --

19 Q Well, let me ask it more simply.

20 Yesterday's testimony is yesterday's
21 testimony, so let's ask this one: Do you recall
22 whether Coopers ever took exception to the \$50 million
23 reserve transfers?

24 A I learned sometime later, and it may have
25 been even in depositions well after the fact, that

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1 they may have taken exception, but I didn't know at
2 the time.

3 Q Okay.

4 And in other words, in 1997 and at the time
5 of the transfers, you never heard of anybody -- and at
6 the close of the audit, you never heard of any
7 exceptions?

8 A I did not.

9 Q And no exceptions were ever expressed to
10 you; is that right?

11 A No.

12 Q Is that right?

13 A That's correct.

14 Q You never were made aware of any request to
15 reserve the transactions; is that right?

16 A Again, I had heard much later in
17 depositions that there may have been that request made
18 to Dan Cancelmi.

19 Q But at the time of the transactions, at the
20 time of the accounting and before the bankruptcy, you
21 never heard that; is that right?

22 A Absolutely not.

23 Q You never heard it?

24 A I did not.

25 Q And the depositions you're referring to are

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1 depositions in other AHERF-related litigation

2 regarding accounting?

3 A Correct.

4 Q And, in fact, the SEC proceedings --

5 A Yes.

6 Q -- that are -- that were initiated against
7 three of the auditors involved?

8 A That's correct.

9 Q You were never asked to reverse any of the
10 entries; is that right?

11 A That is correct.

12 Q By Coopers or anyone else?

13 A Correct.

14 (Thereupon, Deposition Exhibit No. 1543 was
15 marked for identification.)

16 BY MR. JONES:

17 Q Mr. Adamczak, I've handed you what we've
18 just marked as Exhibit 1543, which I think you will
19 identify for us as a May 1, 1998 memo from you to
20 Mr. Abdelhak; is that right?

21 A That's correct.

22 Q And its subject line is "Divested
23 Hospitals" -- "Divested Hospitals' Intercompany
24 Payable Balances at March 31, 1998"; is that right?

25 A That's correct.

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1 Q And in it, you discuss the total of 199 --
2 or, \$99.6 million reserve establishment and transfer
3 in fiscal year 1997 from Graduate to DVOG; is that
4 right?

5 A Correct.

6 Q What prompted this memo?

7 A Sheriff Abdelhak had contacted me somewhere
8 around this date and asked me to put together such an
9 analysis.

10 He wanted to understand the -- the value of
11 the reserves that were created and moved, and from
12 which hospital to which hospital.

13 So I asked Dan Cancelmi to put together an
14 analysis that I could basically understand and write a
15 narrative to, and he, in essence, constructed the --
16 the very last page, page 3, which is the detail of the
17 reserve transfers.

18 From that, I was able to put a summary
19 together in the memo.

20 I, then, talked to both Dan and to
21 Chuck Morrison relative to page 2 of the memo, which
22 gave reasons for the need to move the reserves, in
23 essence, why the bad debt deserve was inadequate,
24 Being that Dan, again, handled the Delaware
25 Valley, and Chuck Morrison was the CFO of that entity,

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1 and had been involved in discussions relative to the
2 bad debt reserves, they were able to give me the
3 three points that are included in that memo.

4 Q On the second page of the memo to
5 Mr. Abdelhak, you considered -- you have some
6 additional narrative that we will get to.

7 But is it fair to say that you considered
8 this a fairly important topic, and did your best to be
9 as accurate as you could in reporting to the CEO of
10 the operation?

11 A Yes.

12 Q And in the second -- on the second page,
13 you list individual reserve amounts that were
14 transferred, and show the total as 99.6 million; is
15 that right?

16 A That's correct.

17 Q And then just below that total, the very
18 next sentence read, "It should be noted, that the
19 above transfers were discussed on more than
20 one occasion and concurred with by Coopers & Lybrand
21 prior to such recording."

22 Is that right?

23 A That is correct.

24 Q And that was accurate then, and remains
25 accurate today?

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1 BY MR. JONES:

2 Q Any other conversations?

3 A With Coopers & Lybrand?

4 Q Yes, about the topic.

5 A No.

6 Q So the basis for the sentence is some
7 personal conversations on your part?

8 A Yes.

9 Q And the reporting of Mr. Cancelmi?

10 A Correct.

11 Q And anything else?

12 A No.

13 Q On the first page of the document, you
14 state in the second paragraph that, "During the latter
15 part" -- or, "the later part of fiscal year 1997
16 approximately 99.6 million of reserves established as
17 part of the Graduate acquisition, and subsequently
18 determined to be cushion from a Graduate perspective,
19 were transferred from the Graduate entities to
20 either" -- "to other DV entities."

21 Do you see that sentence?

22 A I do.

23 Q What did you mean by "subsequently
24 determined to be cushion"?

25 A Subsequently either determined not to be

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1 MR. RYAN: Objection.

2 A Yes.

3 The basis are the memos that we previously
4 discussed, where Dan had, in fact, mentioned that it
5 was approved by Coopers & Lybrand.

6 Q And you had at least a couple conversations
7 with and/or in the presence of the auditors about the
8 transfers yourself; is that right.

9 MR. RYAN: Objection.

10 A That is not correct.

11 Q You had a couple -- you had a conversation
12 with Mr. Kirstein at which the \$50 million transfer
13 was discussed; is that right?

14 A It was introduced, yes.

15 Q So the topic was discussed?

16 A Yes.

17 Q And then you had an audit closing
18 meeting -- or, I'm sorry, you had at least another
19 audit update meeting at which Mr. Buechner discussed
20 the beauty of purchase accounting; is that right?

21 A That's correct, and I believe that he was
22 discussing this.

23 Q These Graduate reserve transfers?

24 A Correct.

25 MR. RYAN: Objection.

1 needed, or that the reserves were in excess of what
2 was needed.

3 (Thereupon, Deposition Exhibits Nos. 1544
4 and 1545 were marked for identification.)

5 BY MR. JONES:

6 Q Mr. Adamczak, we've handed to you now
7 Exhibits 1544 and 1545.

8 The first one, 1544, bears -- bears Bates
9 No. JD-SA-0001729.

10 And the second one bears Bates No. -- and
11 that is Exhibit 1545 -- bears Bates No. DBR-AA 38808.

12 These are two memos from you to

13 Mr. Abdelhak again; am I right?

14 A Yes.

15 Q The first one is dated May 6, that is,
16 Exhibit 1544; is that right?

17 A May 6th, correct.

18 Q And Exhibit 1545 is dated the very next
19 day; is that right?

20 A That's correct.

21 Q And they appear to be very similar and
22 almost identical in content. They're one-page
23 documents; is that right?

24 A Correct.

25 Q In both of them, you note that the

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1 reserve transfers, the Delaware Valley shortfall in
 2 bad debt reserve was at a figure that Mr. Cancelmi
 3 approximates at \$25 million.

4 Is that right?

5 A That's correct.

6 Q So now even after all 50 have been moved,
 7 the problem continues?

8 A Correct.

9 Q I'm handing you now a one-page exhibit
 10 previously marked 1093, and it is headed,
 11 Mr. Adamczak, "David McConnell Bi-weekly Meeting
 12 Agenda May 30, 1997."

13 Is this an agenda you would have prepared?

14 A I believe that Dan Cancelmi and I both
 15 prepared it.

16 In other words, some of the items were his
 17 and some we are mine.

18 Q And these were meetings that you two
 19 typically had with Mr. McConnell together in this time
 20 period?

21 A There may have only been this one that we
 22 both attended.

23 I think it was -- this meeting occurred,
 24 and then there were no meetings for a period of time,
 25 and then Dave had appointed me to the position that

1 A At least brought up.

2 (Thereupon, Deposition Exhibit No. 1546 was
 3 marked for identification.)

4 BY MR. JONES:

5 Q Mr. Adamczak, we just handed you what was
 6 marked Exhibit 1546. It's another Al Adamczak weekly
 7 meeting agenda?

8 A Yes.

9 Q Dated June 30, 1997?

10 A Yes.

11 Q Does this reflect another meeting with
 12 Mr. McConnell?

13 A Yes.

14 This would have been one of the weekly
 15 meetings that we had.

16 Q And, again, given what you just said, this
 17 is likely to have been a meeting between just the
 18 two of you?

19 A Correct.

20 Q And No. 1 on the agenda here is "Delaware
 21 Valley Bad Debt Reserve Shortfall"; is that right?

22 A Yes.

23 Q Do you recall in specific anything
 24 discussed at that time meeting?

25 A Yes.

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1 Steve held, and Dan reported to me.
 2 And I think one of his reasons for doing
 3 that is, he didn't -- didn't like to have two or
 4 three people from accounting report to him.
 5 He liked to have as few reports to him as
 6 possible.

7 Q Did he tell you why?

8 A No.

9 Q The handwritten notes are yours or
 10 Mr. Cancelmi's, or somebody else's?

11 A They're mine.

12 Q And they just reflect that you and Dan were
 13 in attendance; is that right?

14 A Correct.

15 Q The last bullet on the agenda is
 16 "Graduate" -- reads "Graduate Reserves Earmarked for
 17 DV Bad Debt Reserve."

18 Do you see that?

19 A I do.

20 Q Do you recall the conversations at the
 21 meeting about that topic?

22 A I do not.

23 Q You're fairly certain from the fact that it
 24 was on the agenda that the topic was, however,
 25 discussed?

1 Q What do you recall?

2 A I believe that it -- if you refer back
 3 to the exhibit that you had just given me,
 4 Exhibit 41.

5 Q Yes.

6 A Do you remember that was distributed in or
 7 around June 20th, and spoke about an additional
 8 shortfall of 25 million above the 50?

9 My recollection is that I talked to David
 10 about that additional 25, and asked him what he
 11 wanted -- how that should be handled.

12 Q And is this the -- is this the conversation
 13 that you testified to yesterday, in which
 14 Mr. McConnell's reaction was generally that we were to
 15 fix the problem by year end?

16 A Yes.

17 And that Coopers was aware of the issue,
 18 and they were on board with having it disposed of by
 19 year end.

20 Q And you took that to me that additional
 21 reserves transfers, if and where available, were to be
 22 made to resolve the problem by year end?

23 A Yes.

24 (Thereupon, Deposition Exhibit No. 1547 was
 25 marked for identification.)

1 BY MR. JONES:

2 Q We've handed you just now, Mr. Adamczak,
3 what was marked as Exhibit 1547, which is a memo from
4 Mr. Cancelmi to you dated July 3rd, 1997.

5 Do you recall receiving this brief memo?

6 A I do.

7 Q And in the first sentence, Mr. Cancelmi
8 states, "In order to address two of the more
9 pronounced exposure areas prior to our year end audit,
10 various reserves have been utilized to eliminate bad
11 debt reserve shortfalls and Health Partners deficits."

12 Do you see that opening sentence?

13 A I do.

14 Q What did you understand him to mean by
15 "more pronounced exposure areas"?

16 A The bad debt reserve shortfall appeared to
17 have been an item of concern back at the end of the
18 '96 audit, and it continued to be troublesome
19 throughout '97.

20 As you have seen through the various memos,
21 there were shortfalls, and I think this was, you know,
22 Dan just formalizing that in writing, that this --
23 this hopefully would bring the bad debt reserve back
24 into line with where -- where it needed to be.

25 Q On the second page of the memo, does

1 identified through the end of May.

2 Upon preliminary -- preliminarily closing
3 June's general ledger, there was an additional
4 shortfall of some \$20 plus million that was
5 unanticipated, and this was the discussion with David
6 as to make him aware that he was short another
7 28 million.

8 Q So I'm going to ask you to flip back
9 one exhibit.

10 Exhibit 1547 shows 25 million of the
11 transfers and other adjustments on top of the original
12 50; is that right?

13 A That's correct.

14 Q And the weekly agenda -- weekly meeting
15 agenda for July 28, 1997 indicates to you and causes
16 you to recall, or you recall otherwise, that you
17 visited with Mr. McConnell again about a continuing
18 shortfall even after the additional 25?

19 A Correct.

20 Q And at this meeting, you recall discussing
21 a figure of about 28?

22 A Yes.

23 Q 28 million?

24 A Yeah.

25 Q What was Mr. McConnell's reaction to this

1 Mr. Cancelmi provide you an attachment which shows
2 the shortfall and the reserves that had been
3 transferred?

4 A Yes.

5 (Thereupon, Deposition Exhibit No. 1548 was
6 marked for identification.)

7 BY MR. JONES:

8 Q Exhibit 1548, which you now have before
9 you, Mr. Adamczak, is another Al Adamczak weekly
10 meeting agenda, dated this time July 28, 1997.

11 Is that right?

12 A That's correct.

13 Q This would have reflected another meeting
14 between you and Mr. McConnell only?

15 A That's correct.

16 Q Again, topic No. 1 is "Delaware Valley Bad
17 Debt Reserve Shortfall"?

18 A Correct.

19 Q Do you recall the discussions in this
20 meeting?

21 A Yes.

22 Q What do you recall about them?

23 A As we just talked about, 25 million were
24 moved sometime around the end of June, beginning of
25 July, to cover \$25 million shortfall that was

1 topic?

2 A He then -- he reaffirmed that, you know,
3 the issue was to be dealt with by year end, that all
4 parties were involved, on board, including Coopers,
5 and that he asked me to go back to Dan Cancelmi to see
6 whether there were adequate reserves or additional
7 reserves on Graduate or elsewhere to cover this
8 shortfall.

9 So I went back and asked Dan --

10 Q Before you get there, can I stop you for a
11 moment?

12 A Sure.

13 Q Do you remember anything more about the
14 conversation with Mr. McConnell on this topic?

15 A No.

16 Q Did you ever have another with
17 Mr. McConnell on this topic, the Graduate reserve
18 transfers or reserve transfers of any kind to the
19 Delaware Valley?

20 MR. RYAN: Other than what he's already
21 testified to?

22 MR. JONES: Yes.

23 BY MR. JONES:

24 Q I'm talking about additional to the ones
25 you've testified today.

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1 A I don't remember.
 2 Q So this would have been your last
 3 conversation on reserve transfers with Mr. McConnell?
 4 A I believe so.
 5 Q All right.
 6 Go ahead. What you did next was to speak
 7 with Mr. Cancelmi, I think you were telling us?
 8 A Yeah, and ask him whether there were
 9 sufficient reserves in the Delaware Valley either on
 10 Graduate or any of the Delaware Valley hospitals that,
 11 in essence, could be used to cover the shortfall that
 12 he, in essence, had identified, that additional 28 was
 13 identified by him in the preliminary closing process.
 14 Q And the "him" in that sentence is Dan?
 15 A Dan, was Dan.
 16 Dan then came back and relayed that there
 17 were, and he may have even put a list together as to
 18 where the reserves were.
 19 And I talked -- when you said did I ever
 20 talk to David McConnell again after that, I would
 21 have, because I went back to him with this list of
 22 reserves, or at least Dan's representation that there
 23 were adequate reserves to cover that 28.
 24 And he said, "Fine, make the entries."
 25 Q And was this -- can you put a time frame on

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1 The way that I was able to get past that,
 2 in my mind, was that Coopers was on board with it and
 3 understood it.
 4 Q You took some comfort from that?
 5 A I did.
 6 Q And why?
 7 A Because they were supposedly an independent
 8 expert in the field, where I had been away from it for
 9 several years.
 10 Q In part, that's what you hired them to do?
 11 A Correct.
 12 MR. RYAN: Objection.
 13 BY MR. JONES:
 14 Q And that is, be an independent expert in
 15 the field?
 16 MR. RYAN: Objection.
 17 A That is correct.
 18 Q I'm handing you now, Mr. Adamczak,
 19 Exhibit 320. I'm going to ask you take a look at this
 20 document for a while, and tell me you've ever seen it
 21 before.
 22 I will tell you that the Bates label
 23 indicates to me that it was produced perhaps from the
 24 files of Robin Schaffer.
 25 A I have seen this. I did not see it during

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1 that additionally recalled conversation with
 2 Mr. McConnell?
 3 A No, but it -- it probably was not long
 4 after this July 28th.
 5 Q This was something you were trying to do
 6 promptly?
 7 A Right. I would think it was in the next
 8 week. Probably no longer than two weeks.
 9 Q Okay.
 10 And his -- you received his approval again?
 11 A That's correct.
 12 Q Anymore to that conversation other than the
 13 essentially, "I approve"?
 14 A No.
 15 I then went back to Dan and told him that
 16 it was approved, to book the adjustments.
 17 Q Did he mention Coopers again,
 18 Mr. McConnell, in the approval conversation?
 19 A I don't remember.
 20 Q Did you have any concerns at the time about
 21 the propriety of these additional moves?
 22 A Absolutely.
 23 Q What were those concerns?
 24 A Again, the magnitude of them moving from
 25 one entity to the other, that kind of a thing.

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1 this time frame.
 2 Q During which time frame?
 3 A The '97 audit time frame.
 4 Q When did you first see it?
 5 A Sometime months afterward. Probably
 6 sometime around bankruptcy, or after bankruptcy, when
 7 some of these issues arose.
 8 When I asked Dan Cancelmi, again, whether
 9 he was sure that Coopers was aware of all the reserve
 10 transfers, and his comment was --
 11 Q When say "all," you mean the 99.6 --
 12 A The 99, yeah.
 13 Q -- .6 total?
 14 A Correct.
 15 And his comment to me was, "I'm sure they
 16 have, it's even in work papers that we had given to
 17 them."
 18 Q And this --
 19 A And he showed me at least one or two of
 20 these analyses that include footnotes that spoke to
 21 reserve transfers.
 22 Q And this analysis was then provided to you
 23 by Mr. Cancelmi?
 24 A I don't -- he did not provide it to me. He
 25 showed it to me in his office.

1 I don't know that I ever took a copy of it,
 2 or had a copy, possessed a copy.
 3 Q I see.
 4 It was shown to you, in any event?
 5 A Correct.
 6 Q And did it give you more comfort?
 7 A Absolutely.
 8 Q And I'm going to ask you then, the topic --
 9 or, the topic line or the first line of the document,
 10 on the first page, I'm sorry, reads "Amounts Per
 11 Attached Analyses Provided to Auditors" in thousands;
 12 is that right?
 13 A Yes, that's what it says.
 14 Q Thousands of dollars; is that right?
 15 A Correct.
 16 Q And on the -- I'm going to ask you to flip
 17 to the next page, the second page of the document, and
 18 can you identify what this page is?
 19 A It looks to me to be a roll forward by
 20 month of reserves for bad debt.
 21 Q At MCP inpatient?
 22 A Correct.
 23 That starts with a beginning balance for
 24 any given month, and the -- a detailed activity of
 25 categories as to what took place resulting in the

1 A Correct.
 2 Q And then the second footnote, footnote G,
 3 that I was referring to, reads, "Includes
 4 \$5.591 million year end," or "YE shortfall adjust".
 5 Is that right?
 6 A That's correct.
 7 Q Are those the kinds of --
 8 MR. RYAN: The footnote does go on to
 9 say --
 10 MR. JONES: I'm sorry.
 11 BY MR. JONES:
 12 Q The footnote goes on and says other things,
 13 including "\$34,000," roughly, "accounts receivable
 14 reconciliation adjustment, EPPI bad debt transfer of
 15 \$5,281,000," roughly; is that right?
 16 A It does.
 17 Q Are these the kinds of footnotes that gave
 18 you comfort, that the auditors knew about the
 19 transfers to which you just referred?
 20 A Yes.
 21 MR. RYAN: Objection.
 22 BY MR. JONES:
 23 Q What about them gave you comfort?
 24 MR. RYAN: Objection.
 25 A The fact that it states that the transfers

1 ending balance at the end of the month.
 2 Q And MCP was the Medical College of
 3 Pennsylvania Hospital?
 4 A That's correct.
 5 Q And that is a DVOG hospital?
 6 A Yes, it is.
 7 Q I'm going to direct your attention to a
 8 couple footnotes that appear, and before I do that, it
 9 was your understanding that Mr. Cancelmi -- strike
 10 that.
 11 Mr. Cancelmi told you that these documents
 12 were shared with the auditors?
 13 A That's correct.
 14 Q At the time of the audit?
 15 A Yes.
 16 Q For fiscal year '97?
 17 A Yes.
 18 Q The footnotes I was going to refer you to
 19 before, and will now, are F and G.
 20 F reads, "Includes Past Statute write-off
 21 of \$139,000," roughly, "and reserves from Graduate of
 22 \$15 million."
 23 Is that right?
 24 A That's correct.
 25 Q And the "15 million" is circled?

1 were made.
 2 Q Do the words "year end shortfall
 3 adjustment," are those important words to you, as
 4 well?
 5 A They are, but not as much as the fact that
 6 it says transfer reserves from Graduate.
 7 Q As an auditor, when you see things like
 8 "year-end shortfall adjustment" in an amount of
 9 five and a half million dollars, what does that tell
 10 you to do?
 11 MR. RYAN: Objection.
 12 A Well, what that tells me is that before
 13 this adjustment was made, there was a shortfall or a
 14 deficiency, and that there was a transfer made to make
 15 up for that shortfall.
 16 As an auditor, I would ask where the
 17 transfer came from, and how it was recorded.
 18 Q You'd ask other questions?
 19 A Correct.
 20 Q You'd do follow up?
 21 A I would.
 22 Q Because year-end adjustments of this
 23 magnitude are things that need to be tracked?
 24 MR. RYAN: Objection.
 25 A Unless I -- unless I knew what had

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1 happened.

2 Q Unless you already knew the facts?

3 A Right.

4 MR. JONES: Let's take a break here.

5 THE VIDEOGRAPHER: We are off the record.

6 The time is 9:21 a.m.

7 (Recess taken.)

8 THE VIDEOGRAPHER: Standby, please.

9 We're back on the record. The time is

10 9:33 a.m.

11 BY MR. JONES:

12 Q Mr. Adamczak, I'm going to ask you now
13 about the \$28.3 million set of reserves or other
14 adjustments that were made as the last part of the
15 99.6.16 Do you recall that from our prior
17 discussions?

18 A I do.

19 Q Whose idea was it to make those transfers?

20 A When you say "idea," what --

21 Q Do you recall ever knowing who first
22 proposed that last set of moves?23 A Well, there was a shortfall in the
24 preliminary close that I talked to David McConnell
25 about.

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1 And as I mentioned, he asked me to go back
2 to Dan Cancellmi and ask him whether there were
3 adequate reserves of any type anywhere in the Delaware
4 Valley that could cover those shortfalls.

5 Q Or the Graduate?

6 A Correct.

7 Q And that -- that's what led ultimately to
8 the 28.3?

9 A Correct.

10 Q Handing you now what has been marked as
11 Exhibit 49 in a prior deposition.

12 Do you recognize this document?

13 A Yes.

14 Q What is it?

15 A It looks like an analysis that takes the
16 unadjusted, meaning preliminary, June results, bottom
17 line income or expense, and shows some analysis coming
18 over to an adjusted June year to date income, and
19 compares it to the -- the 1997 budget, the 1997
20 projection that was prepared with the 1998 budget, and
21 the 1996 actual results.22 Q And the heading of the document is "AHERF
23 Income Statement Information FY 97"?

24 A Correct.

25 Q There is a column -- actually, the

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1 information is also broken down for total DVOG; is

2 that right?

3 A That is correct.

4 Q And there is a column called "Use of
5 Reserves."

6 Am I right?

7 A That's correct.

8 Q And the total there for apparently used at
9 DVOG is what sum?10 A 22,800,000, although they're Centennial,
11 which was also in the Delaware Valley, which is
12 another four million, and New Jersey, which is
13 two million five.14 So if I read all -- all the uses in the
15 Delaware Valley, it's 31 million 550 minus 2 million
16 250.17 Q And how is it that you first came to
18 possess or see this document?19 A I believe either I or Dan put this
20 together.21 Q Through the use of these reserves, the
22 income statement information depicted comes much
23 closer to meeting the budgeted expectations; is that
24 fair to say?

25 A That's correct.

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1 Q And without it, it falls significantly
2 short; is that fair to say? Without the use of the
3 reserves referenced?

4 A Yes.

5 As a matter of fact, I believe that with
6 the use of the reserves, the adjusted number comes
7 pretty close to the projected amount.8 Q And is the -- are the reserves listed in
9 this schedule part of the 28.3 third installment of
10 reserve moves?

11 A I believe that they are.

12 Q Is there -- do you recall whether there was
13 a May move that may have caused the numbers not to tie
14 directly together, that involved a portion of the
15 28.3, as you sit here today?

16 A I need -- I need you to ask that again.

17 Q Do you recall that there was a roughly
18 \$7 million move in May of the year that would have
19 been reflected on this schedule, but was still a part
20 of the 28.3?

21 A I don't remember that.

22 (Thereupon, Deposition Exhibit No. 1549 was
23 marked for identification.)

24 BY MR. JONES:

25 Q Mr. Adamczak, I've just handed you what

1 we've now marked as Exhibit 1549, which appears to
 2 have been produced from your files, and I believe has
 3 a handwritten note from Mr. Cancelmi to you on the
 4 first page.

5 Do you remember receiving this document?

6 A I do.

7 Q About when do you think you got it?

8 A Again, I know this was not in the time
 9 frame of the '97 audit. It was some -- some
 10 subsequent period.

11 Q So after August of '97, at least?

12 A At least.

13 Q Do you recall getting it before or after
 14 bankruptcy? If you can.

15 A I don't remember, but I believe it probably
 16 was after.

17 Q And do you recall the circumstances under
 18 which you came to possess it? Did you ask for some
 19 back up?

20 A Yeah.

21 Again, it was through subsequent
 22 inquiries. I don't know whether it was when the PWC
 23 representative came on behalf of the board, or there
 24 was some inquiry, or some initiative to better
 25 understand something that happened back in the -- the

1 June '97 time frame.

2 And, again, I asked Dan, you know, "You're
 3 sure that Coopers was on board or knew about these
 4 transfers?"

5 And he produced this document, or sent this
 6 document to me.

7 Q Could you read the handwritten note?

8 A Sure.

9 It says, "To Al," "Al, attached is the
 10 info I found to confirm that C&L knew about the
 11 28.3 million."

12 Q And that is in Mr. Cancelmi's hand?

13 A Signed "Dan," yes.

14 Q And you were familiar with his handwriting?

15 A It looks -- sure looks like it.

16 Q And you are familiar with his handwriting?

17 A I am.

18 Q And the heading of the document is -- of
 19 the first page of the first document, in any event, is
 20 "Graduate System Reserves Fiscal Year Ended June 30,
 21 1997"; is that correct?

22 A That is correct.

23 Q And the grand total at the bottom of the
 24 schedule is what?

25 A 28,300,000.

1 Q And what does the schedule generally depict
 2 for you?

3 A To me, it looks like the source of
 4 \$28.3 million worth of reserves identified by hospital
 5 and by category of where the reserve was.

6 Q And these 28.3 million of reserves that
 7 were transferred from the Graduate hospitals to the
 8 Delaware Valley hospitals went to a different account
 9 than the first 50 and the second 21; am I right on
 10 that?

11 A I believe that's true.

12 Q What is it that you recall about the
 13 account that these latter 28.3 were received in at the
 14 Delaware Valley hospitals?

15 A I don't remember.

16 Q Was it to reduce contractual allowance?

17 A That's what it says in the one memo that we
 18 previously had looked at, but I didn't remember that.

19 Q Do you recall any discussions, at the time
 20 of these moves or after, that the 28.3 million was
 21 moved in the hope of meeting budgeting income?

22 A I heard about it much later.

23 Q And how is it that you heard about it?

24 A I had asked Dan Cancelmi, and he
 25 mentioned that.

1 Q What did he say to you about that?

2 A That the actual results for June were less
 3 than anticipated, and it was not all due to the
 4 shortfall in the bad debt reserve.

5 Q And that -- and what about needing to make
 6 the moves to meet budget?

7 A That these moves accomplished that.

8 Q This was a post June move, or near about
 9 June move?

10 A It was a post June on a calendar date, but
 11 it was in the June close.

12 Q And when was this conversation had with
 13 Mr. Cancelmi about the motive?

14 A Sometime in or around bankruptcy, if not
 15 after.

16 Q Was anybody else present?

17 A Not that I'm aware of.

18 Q Do you recall whose decision it was to move
 19 these 28.3 to contractual allowance expense, if that's
 20 where they were moved to?

21 A I don't.

22 Q Did you review the content of the schedules
 23 that are attached to the face page of Exhibit 1549
 24 when you received the memo?

25 A Not in detail.

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1 I took a quick look through them.
 2 Q Did you understand these pages to have been
 3 information either provided to or available to Coopers
 4 during the audit process?

5 A I did.

6 MR. RYAN: Objection.

7 BY MR. JONES:

8 Q Did you understand them to have been
 9 provided to them?

10 A Yes.

11 Q If Coopers or anyone at Coopers & Lybrand
 12 had any questions about any entry on these pages, what
 13 additional information could have been available --
 14 made available to them, kinds of additional
 15 information?

16 A Oh, I think at a minimum, they could have
 17 sat down with somebody and had it explained to them in
 18 very -- very detail.

19 Q Could they have also asked for additional
 20 documentation or pull forwards?

21 A Absolutely. Absolutely.

22 Q Could they have asked to view general
 23 ledger entries on the screens?

24 A Yes, or specific copies of the journal
 25 entries themselves.

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1 Q In hard copy?
 2 A Correct.
 3 Q They could have made queries, could have
 4 asked for queries to have been made of the general
 5 ledger system?

6 A Yeah.

7 As a matter of fact, generally one of the
 8 process -- or, procedures that an auditor does is to
 9 review all big journal entries during the year for
 10 unusual items.

11 Q Were there paper copies of journal entries
 12 maintained at AHERF that would have been available to
 13 C&L?

14 A Yes.

15 Q How were they maintained?

16 A I believe each hospital had its own set of
 17 files of journal entries, and they were maintained in
 18 a file by month.

19 Q Were they in binders, or file gussets, or
 20 some other maintenance procedure?

21 A I don't necessarily remember.

22 Q When Mr. Cancelmi told you that the
 23 \$28.3 slug of reserve transfers was at least in part
 24 motivated by a desire to have income performance look
 25 closer to budget at year end 1997, did he tell you

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1 where he heard that from himself, if it was from
 2 somebody else?
 3 A No.
 4 Q Do you have any knowledge about whether it
 5 was Mr. Cancelmi's or somebody else's idea to make the
 6 \$28.3 million move?

7 A I don't believe it would have been his idea
 8 to move.

9 Q And why is that?

10 A Again, he nor I have any authority to do
 11 anything like that.

12 Q Mr. Adamczak, I'm handing you now what
 13 we've marked as Exhibit 301.

14 Q Have you seen this document before?

15 A I have.

16 Q What is it?

17 A This was some attempt to determine the
 18 amount of cushions or unusual items that were in
 19 income in 1987 that was prepared after June 30th.

20 Q The memo itself was?

21 A The analysis was.

22 Q And handwriting on the first page is yours?

23 A It is.

24 Q And it's addressed to "David," as in
 25 David McConnell?

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1 A That's correct.
 2 Q I'm going to ask you to flip to the
 3 second page for a moment, and in it is a table that's
 4 headed "Delaware Valley Hospitals Fiscal Year 97 Use
 5 of Cushions" in millions of dollars.

6 Is that right?

7 A That's correct.

8 Q Did you prepare this table?

9 A With the input of Dan Cancelmi, yes.

10 Q And it notes that, in total, net income in
 11 the Delaware Valley hospitals was improved or
 12 increased by what figure through the use of cushions?

13 A Could you repeat that one more time?

14 Q The schedule or table tells the reader that
 15 Delaware Valley hospitals' net income would have been
 16 improved through the use of cushions by what total
 17 figure in fiscal year 1997?

18 A 75 million.

19 Q And where do you pull the number from?

20 A The middle column, "Transfers from Graduate
 21 to Cover Shortfall and Bring Bad Debt Allowance to
 22 Required Levels."

23 Q I think I'm looking at page 2 of the
 24 document, and you may be looking at a different one.

25 A Oh, you're right.

1 Q Does this give you a different figure?
 2 Page 2, that is.
 3 A Yeah, let me -- 59.1 million.
 4 Q And that's the total?
 5 A Correct.
 6 Q It notes "Graduate Cushions" in a column --
 7 MR. RYAN: I apologize.
 8 BY MR. JONES:
 9 Q -- "Transferred and taken into Income" of
 10 only \$7 million.
 11 Does -- is that because the table may have
 12 been prepared before the last 21.3 --
 13 A No, the table would have been --
 14 Q -- of the -- let me finish the question.
 15 -- of the 28 had been moved?
 16 A I believe this analysis was prepared after
 17 the 28 was moved.
 18 Q Was there -- can you explain, then, why you
 19 would only have seven in that column as a total?
 20 A No, I don't remember why.
 21 Q Okay.
 22 59.1, or something even greater, as you
 23 referred to a moment ago, would have been a material,
 24 to you, number in terms of the Delaware Valley income
 25 statement; is that fair to say?

1 least your first name, in the "From" line?
 2 A Correct.
 3 Q And it deals with a problem you mentioned
 4 yesterday, that is, the memo deals with a problem you
 5 mentioned yesterday, which was cash receipts, or the
 6 lack thereof; is that right?
 7 A Yes.
 8 Q And, in fact, the last line -- lines of
 9 the first paragraph state, "Overall, I believe that
 10 cash collection shortfalls were probably in the
 11 neighborhood of some 70 to 80 million for fiscal
 12 year 1996, and this excludes making any progress on
 13 the \$62 million increase in A/R during fiscal year
 14 1995"; is that right?
 15 A Yes.
 16 Q So does this refresh your recollection that
 17 the cash difficulties you recalled being in play at
 18 AHERF were in play in fiscal year 1996, as well?
 19 A Yes.
 20 I believe they were heightened in '97 or
 21 got worse.
 22 Q They were not easy problems in 1996; is
 23 that fair to say?
 24 A I think that's fair to say.
 25 Q They were significant challenges?

1 MR. RYAN: Objection.
 2 A That's fair.
 3 Q It's a big number?
 4 A Yes, it is.
 5 Q And if the statement of operations or
 6 income statement at the Delaware Valley had been
 7 improved inappropriately by that number, a reader of
 8 the financial statements would have been misled as to
 9 operations in fiscal year 1997 at the Delaware -- at
 10 the Delaware Valley, is that right, the success of
 11 those operations?
 12 A I believe so.
 13 Q Mr. Adamczak, I'm going to shift gears for
 14 a minute or more and ask you now to talk with us a
 15 little bit about the accounting for intercompany
 16 transfers.
 17 A Okay.
 18 (Thereupon, Deposition Exhibit No. 1562 was
 19 marked for identification.)
 20 BY MR. JONES:
 21 Q We've handed you now what we've marked as
 22 Exhibit 1562, which is a memo from you to Mr. Spargo,
 23 dated August 27, 1996; is that right?
 24 A That's correct.
 25 Q And that's your name and signature, at

1 A Yes.
 2 Q And this shortfall that is referred to here
 3 was an eastern part of the enterprise, or was this an
 4 overall shortfall?
 5 A I believe it's overall.
 6 Q But it was primarily, if you look at the
 7 second page, driven by eastern hospitals' shortfalls;
 8 is that fair to say?
 9 A Yes.
 10 MR. RYAN: Objection.
 11 BY MR. JONES:
 12 Q And the AIHG enterprise, which was a
 13 physician practices acquisition enterprise; is that
 14 right?
 15 A That's correct.
 16 Q In fact, the shortfall at AGH was the
 17 smallest shortfall on the table on page 2?
 18 A That's correct.
 19 Q You recall, Mr. Adamczak, that from time to
 20 time, western hospitals were called upon to advance or
 21 loan money to AHERF, which would then be loaned to
 22 eastern region affiliates to make up for this cash
 23 shortfall?
 24 A That's correct.
 25 Q What funds in western hospitals do you

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1 recall being affected by these loans or advances?
 2 A Generally, it was the funds that we
 3 referred to as funded depreciation funds.
 4 Q And funded depreciation generally is what?
 5 Well, first at what hospitals?
 6 A Generally, it was Allegheny General
 7 Hospital.
 8 Q And then what is generally funded
 9 depreciation?
 10 A Generally funded depreciation are
 11 investments or cash that are put aside under the
 12 theory that, over time, your assets, your major assets
 13 wear out, and this is a way of saving cash to fund the
 14 replacement of those assets in the future.
 15 From a very theoretical perspective, your
 16 depreciation expense is noncash, meaning it's an
 17 expense that hit your income statement, but it's
 18 noncash.
 19 Hospitals traditionally or used to set that
 20 amount of cash aside, with the understanding that
 21 although it was noncash, if they could put that cash
 22 aside, that as the asset was used, which depreciation
 23 is reflective of, they'd have enough cash to replace
 24 that asset when it was fully used up.
 25 Q Whose idea was it to make the loans or

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1 Q What do you recognize it to be?
 2 A A set of monthly financial statements for
 3 Allegheny General Hospital for the period ending
 4 March 31st, 1996.
 5 Q And that's still in the fiscal year 1996?
 6 A That's correct.
 7 I'm going to ask you to flip to the balance
 8 sheet, and you'll find that at page 87661.
 9 Are you with me?
 10 A I'm there.
 11 Q And on the "Assets" side of the balance
 12 sheet, there's a column entitled, "Current Assets";
 13 right?
 14 A Correct.
 15 Q And there is an -- a row, I'm sorry, a row
 16 entitled "From affiliates"; is that right?
 17 A That's correct.
 18 Q And it is a receivable row?
 19 A That's correct.
 20 Q And the amount is \$25,771,000 as of
 21 March 31?
 22 A That is correct.
 23 Q And as of June 30, 1995, the prior year
 24 end, the amount was zero; is that right?
 25 A That is correct.

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1 advances, and use funded depreciation as the source?
 2 A Well, I think ultimately it was
 3 David McConnell's choice and Sheriff Abdelhak would
 4 have to be aware that funded depreciation was used,
 5 and that he would see his investments going down as he
 6 looked at the financial statements.
 7 As far as a choice, I think it was a choice
 8 that had to be made because there were bills to be
 9 paid.
 10 Q Who approved the loans as they were called
 11 for?
 12 A I believe that David McConnell authorized
 13 withdrawals from funded depreciation.
 14 Q And why do you say you believe that?
 15 A I seem to remember -- and that was handled
 16 through the treasury department.
 17 I seem to remember there being a letter
 18 issued or something every time that happened from
 19 David McConnell approving the draw down, or the
 20 liquidation of funded depreciation funds.
 21 Q Mr. Adamczak, I've just handed you what
 22 we've marked as Exhibit 534.
 23 Do you recognize this, recognize this
 24 document?
 25 A I do.

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1 Q Under an additional "Asset" heading, there
 2 is an amount for "Investments limited or restricted as
 3 to use by the board of trustees" of \$145,608,000; is
 4 that right.
 5 A That is correct.
 6 Q What does restricted by board of trustees
 7 mean, "restricted as to use"?
 8 A Those are the funded depreciation assets
 9 for the most part that you spoke about.
 10 Generally, they are unrestricted, meaning
 11 they are -- they can be used by the organization as
 12 the organization sees fit.
 13 In other words, they are not external
 14 restrictions by donors or unrelated parties.
 15 Q They are more liquid than these externally
 16 restricted assets?
 17 A Well, not only liquid, but available for
 18 use, so the operations of the hospital at their
 19 discretion.
 20 Generally, the board of directors -- or,
 21 not generally.
 22 The board of directors at most hospitals
 23 may be required to approve the use of those funds, but
 24 they may not be.
 25 It's a hospital by hospital designation.

1 Q I hand you now what we've marked as
 2 Exhibit 535. It is entitled "Financial Statement
 3 Highlights," "Allegheny General Hospital," "Month
 4 ended March 31, 1996."

5 And the page deals with the balance sheet;
 6 is that right?

7 A It does.

8 Q In the second bullet point, there appears a
 9 sentence, "As noted last month, 40 million of such
 10 inter-company receivables has been reclassified to
 11 funded depreciation assets as such represents a
 12 receivable to be repaid upon completion of the DVR
 13 bond refinancing."

14 Who made the decision -- am I right about
 15 that, the way it reads?

16 A Yes.

17 Q Who made the decision to reclassify
 18 40 million of intercompany receivables to funded
 19 depreciation?

20 A I don't know who ultimately made that
 21 decision.

22 I know that David McConnell, through
 23 Steve Spargo, had communicated that change be made.

24 Q To you?

25 A Either to me, or to probably Jack Nelson or

1 the Delaware Valley Obligated Group series of 1996
 2 bonds and 9.9 million of additional funded
 3 depreciation investments were liquidated."

4 Do you see that?

5 A I do.

6 Q Who made the decision to use a portion of
 7 the DVOG refinancing to repay AGH? If that's what
 8 this notes reflects.

9 A That's what it appears to reflect to me
 10 and, again, the decision would have been made at the
 11 David McConnell/Sheriff Abdelhak level.

12 Q You weren't involved?

13 A No.

14 Q And you didn't learn who made the decision?

15 A No.

16 Q Do you know whether any of the creditors or
 17 insurers for the bond issuance had notice of this?

18 A I do not know.

19 Q You now have before you Exhibit 546,
 20 Mr. Adamczak. It's a note from -- a memo, rather,
 21 from Jack Nelson to Joe Dionisio, dated November 13,
 22 1996.

23 And the subject line is "AGH October 31,
 24 1996 Financial Statements."

25 Is that right?

1 Joe Dionisio, but ultimately through me.

2 Q Do you recall why the change was -- the
 3 classification change was being made?

4 A I assumed it was because there was some
 5 sensitivity, as we spoke about previously, relative to
 6 money from the west in Allegheny General Hospital
 7 going to the east.

8 Q Sensitivity on the part of those reading
 9 the financial statements?

10 A Yes, and doctors who may not read the
 11 financial statements, but may not particularly care
 12 for money from, as they saw it, their hospital going
 13 to support the eastern hospitals.

14 Q They might learn of it from others who read
 15 the financial statements; is that what you mean?

16 A Yes.

17 Q I'm handing you now what we've marked as
 18 Exhibit 536, which is -- again, it's titled "Financial
 19 Statements Highlights," "Allegheny General Hospital,"
 20 "Month Ended June 30, 1996."

21 Is this a document you recall receiving?

22 A Yes.

23 Q It notes that, "Additionally, during June,
 24 49.8 million previously transferred to AHERF for
 25 DVR cash requirements was repaid from the proceeds of

1 A That's correct.

2 Q You got a copy of this at the time,
 3 roughly?

4 A Yes, yes.

5 Q On the second page, it attaches another
 6 "Financial Statement Highlights" for AGH, this one for
 7 the month ended October 31, 1996; is that right?

8 A That's correct.

9 Q And in it, in the notes on this balance
 10 sheet portion of the highlight document, the following
 11 appears, "Funded depreciation investments increased
 12 by 19.1 million from September 30, 1996 to
 13 133.2 million," comma, "such increase is primarily
 14 related to a \$30 million of intercompany receivables
 15 reclassified to funded depreciation investments which
 16 represents an amount related to anticipated
 17 collections on DVR patient accounts during the
 18 remainder of fiscal year '97 and 705,000 of investment
 19 income."

20 Do you see that?

21 A I do.

22 Q Was this another reclassification?

23 A Yes, it was.

24 Q Do you know who made this decision?

25 A I don't.

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1 Again, I would again assume it's
 2 David McConnell or Sheriff Abdelhak.
 3 Q And when you saw this document, did you
 4 understand or believe that the reason for the
 5 classification was -- the reclassification was the
 6 same as the reason for the prior reclassification?

7 A Yes.

8 Q And that was to diminish the obviousness of
 9 the intercompany payable and receivable?

10 A Yes.

11 Q And the obviousness of that growing
 12 intercompany receivable was, thereby, lessened by any
 13 reader of the financial statements, including board
 14 members?

15 A Yes.

16 Q Did this trouble you?

17 A Yes, it did.

18 As a matter of fact, I think at some later
 19 date, Joe Dionisio expressed our frustration with that
 20 reclass to Mr. McConnell.

21 Q Did you express yours to Mr. Dionisio
 22 first?

23 A I don't know that I needed to.

24 I think he had the same frustration right
 25 off the bat.

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1 Q How did you learn that Mr. Dionisio
 2 expressed his frustration to Mr. McConnell?

3 A I had seen a copy of the memo.

4 Q Do you recall what Mr. McConnell's reaction
 5 was, if you ever learned of it?

6 A I thought it said something to the effect
 7 that this would be -- and these are my words versus
 8 his -- corrected by the end of the year so that it was
 9 no longer -- that any intercompany would no longer be
 10 reclassified to funded depreciation.

11 Q Do you remember seeing some memo to that
 12 effect from Mr. McConnell?

13 A I do.

14 Q So for whatever reasons, the
 15 reclassifications were going on, you, at least at the
 16 time you received that memo, had some hope that they
 17 would be corrected by year end?

18 A I had an understanding that they would be,
 19 not a hope.

20 Q Mr. Adamczak, I'm now handing you what
 21 we've marked as another memo from Mr. Nelson to
 22 Mr. Dionisio that you received, of which you received
 23 a copy, this one dated December 30, 1996, and it again
 24 attaches the financial statement highlights for AGH
 25 this time as of November 30, 1996; is that right?

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1 A That is correct.

2 Q And this memo notes that there was, in
 3 fact, a reversal of certain reclassifications, is that
 4 right, in its fourth bullet point under the "Balance
 5 Sheet" heading of page 2?

6 Or that such a reversal should take place?

7 A What I read this to say is that, and as
 8 with the process, a draft of the financials were
 9 sent to Joe Dionisio for approval, that in the draft,
 10 the 30 million was shown as an intercompany
 11 receivable, and that Jack is asking in this memo, or
 12 informing Joe that that's the case, and telling him
 13 to please inform -- telling Joe to please inform Jack
 14 if he would like an intercompany receivable reclass
 15 made.

16 Q To funded depreciation?

17 A To funded depreciation in the final
 18 statements.

19 Q It's a query?

20 A Correct.

21 Q Exhibit 548 is a memo from Mr. Dionisio
 22 himself dated June 6 -- I'm sorry, January 6, 1997, on
 23 intercompany transfers to a team of finance department
 24 folks, including yourself; is that right?

25 A That's correct.

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1 Q Mr. Spargo is directed -- the memo is
 2 directed to him and Mr. Nelson, as well?

3 A That's correct.

4 Q I want to give you a second to read the
 5 memo.

6 Have you had a chance?

7 A I have.

8 Q The final paragraph of the memo reads, in
 9 part, "you previously advised me that Advances to
 10 Affiliates" -- that's the intercompany receivable
 11 we've been talking about; right?

12 A That's correct.

13 Q -- "should be recorded as other assets,"
 14 and then parenthetically Mr. Dionisio writes, "as
 15 opposed to included in Assets Limited or Restricted As
 16 To Use."

17 Is that right?

18 A That's correct.

19 Q And he then puts the tag on that which
 20 follows, and I quote, "in accordance with generally
 21 accepted accounting principles and year end reporting
 22 requirements."

23 Is that right?

24 A That's correct.

25 Q And then he asked, "Please confirm with